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November 4, 2005

Honorable Ron Jones
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

RE: TRA Docket Nos. 04-00403

Dear Chairman;

The above referenced matter is on the Final Conference Agenda for November 7, 2005. Attached is a copy of a "Staff Report" regarding a settlement between Virginia Gas, Inc. and the Staff at the Commonwealth of Virginia State Corporation Commission. The Consumer Advocate does not wish to comment on the attached report. Nor, does the Consumer Advocate propose that the measures described in the report would be appropriate for Tennessee. In fact, the Consumer Advocate might very well disagree with some of the conclusions reached in the report. Instead, the Consumer Advocate is simply making the Tennessee Regulatory Authority aware of the report and its contents for whatever credence this submission warrants.

Sincerely,

A handwritten signature in black ink, appearing to read "T.C. Phillips".

Timothy C. Phillips
Senior Counsel
(615) 741-8700

cc: J.W. Luna, Esq. (via hand delivery)

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

STAFF REPORT

PUBLIC VERSION
(WITH REDACTED AGREEMENTS)

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DOCUMENT CONTROL

INVESTIGATION OF GAS SUPPLY ASSET ASSIGNMENT
AND AGENCY AGREEMENT
BETWEEN

VIRGINIA NATURAL GAS, INC.,

AND

SEQUENT ENERGY MANAGEMENT, L.P.,
f/k/a AGL ENERGY SERVICES, INC.

CASE NO. PUE-2004-00111

OCTOBER 14, 2005

INVESTIGATION OF GAS SUPPLY ASSET ASSIGNMENT
AND AGENCY AGREEMENT
BETWEEN
VIRGINIA NATURAL GAS, INC.,
AND
SEQUENT ENERGY MANAGEMENT, L.P.,
f/k/a AGL ENERGY SERVICES, INC.

CASE NO. PUE-2004-00111

Introduction

Virginia Natural Gas, Inc. ("VNG" or "Company"), a Virginia public service company, is a wholly owned subsidiary of AGL Resources Inc. ("AGLR"), an Atlanta-based registered holding company. AGLR currently provides natural gas distribution services and pipeline operations through seven local distribution companies ("LDCs"): VNG, Virginia Gas Distribution Company, Atlanta Gas Light Company, Chattanooga Gas Company, Elizabethtown Gas (New Jersey), Elkton Gas (Maryland), and Florida City Gas. AGLR's wholly owned subsidiary, Sequent Energy Management, L.P., ("Sequent"), is based in Houston, and provides asset management services to AGLR's LDCs, including VNG, and to third parties. AGLR's wholly owned subsidiary, AGL Services Company ("AGLSC") provides administrative and management support to AGLR and its affiliates, including VNG and Sequent.

On September 29, 2004, the State Corporation Commission ("Commission") entered an Order in Case No. PUE-2004-00111 ("Order"), attached as Appendix A, directing the Commission Staff to investigate and audit the existing Gas Supply Asset Assignment and Agency Agreement ("Agreement" or "AMA") between VNG and its affiliate Sequent,¹ to determine whether the Agreement remains in the public interest. The Commission also authorized Staff to retain a consultant to assist in the investigation. Staff retained the Liberty Consulting Group.² The Commission's Order directed Staff to focus on three general areas of inquiry during its investigation:

- *Agreement Evaluation*
 - Evaluate the terms and conditions of the AMA, and
 - Recommend any appropriate amendments or revisions
- *Agreement Implementation*
 - Examine how the Agreement has been implemented by VNG and Sequent

¹ On November 30, 2000, in Case No. PUA-2000-00085, the Commission entered an Order Granting Approval of a Gas Supply Asset and Assignment Agreement between VNG and AGL Energy Services Inc., now named Sequent Energy Management, L.P. Under the terms of the Agreement, Sequent provides natural gas supply and asset management services for VNG's non-distribution assets and operates as VNG's agent for procuring natural gas supplies.

² Henceforth, Commission Staff and the Liberty Consulting Group are collectively referred to as "Staff."

- *Agreement Transactions*

- Audit transactions made under the AMA to determine whether it continues to be in the public interest

The Order also noted that in granting approval of the Agreement, the Commission had stated clearly that, "an essential task of the energy manager is to find, create, and take advantage of physical and financial market opportunities by managing VNG's assets in combination with other assets to meet the requirements of VNG's customers and other markets more efficiently."

In its evaluation of the Agreement, Staff compared the terms and conditions of this Agreement to those of other gas purchasing and asset management agreements, based on its experience in examining such arrangements at other utilities. Staff also interviewed VNG and Sequent personnel to develop a baseline understanding about how their portfolio design, operation, procurement, and asset management works in practice. Finally, Staff compared existing practices to VNG's practices prior to entering into the Agreement with Sequent.

To provide an assessment of the implementation of the Agreement, Staff reviewed and evaluated a series of VNG/Sequent inter-related functions and activities. This included an evaluation of capacity planning and use to ensure that VNG has not accumulated excess capacity for the purpose of allowing value creation for Sequent's benefit, and to ensure that VNG's capacity is used to minimize cost to VNG's customers. Staff also reviewed VNG affiliate company relationships, in order to evaluate the adequacy of VNG's oversight of services received from affiliates.

Various transactions made under the Agreement were reviewed by Staff in order to determine (i) whether transactions are priced and costed as required under the Agreement, (ii) whether any Agreement pricing and costing methods (even when carried out in accord with the Agreement) disadvantage VNG and/or its customers, (iii) whether transactions exposed VNG to undue risk, and (iv) the completeness and accuracy of transaction records. The types of transactions reviewed included capacity releases, off-system sales by Sequent, Sequent sales to VNG, Sequent purchases for VNG, storage deals, and propane transactions.

Cooperative Actions Between Staff and VNG

Upon completion of its investigation, Staff shared its preliminary findings and recommendations with VNG and Sequent in an effort to resolve any differences and possibly reach a resolution of the areas of concern identified by Staff, including the specific terms and conditions to incorporate in a revised agreement.

Based on extensive discussions and communications between Staff, VNG, and Sequent, VNG and Sequent agreed on the appropriate revisions that should be made to the Agreement, to both protect the VNG customer and serve the public interest. The

resulting work products from this cooperative effort, as prepared by VNG and agreed to by Staff, are attached as Appendices to this Staff Report, specifically

- Appendix B Draft Revised Agreements
 - Asset Management and Agency Agreement
 - Gas Purchase and Sale Agreement (attached to the above Asset Management agreement as Exhibit C)
- Appendix C Work Plan Addressing Other Areas of Concern

This Staff Report incorporates the resolution of issues agreed to by Staff, VNG, and Sequent

Staff recognizes the significant contribution made by the Liberty Consulting Group in assisting the investigation. Staff also recognizes the significant contribution made by VNG and Sequent to reach a resolution of all concerns of Staff

Staff Findings

Staff examined all aspects of the Agreement, its implementation, and its resulting transactions. After an extensive audit and evaluation, Staff identified several areas of concern and formulated revisions that it believes should be made to improve the Agreement. These areas of concern are discussed below. In addition, the resolution of each concern, per the proposed revised agreements, is also noted.

Sequent's Access to VNG Assets

The current Agreement, as written, allows the assignment of VNG's assets to Sequent. In practice, however, there is no assignment. Rather, Sequent acts as VNG's agent with regard to its gas supply assets. Staff believes that an agency relationship is preferable to assignment, as an assignment may limit VNG's legal rights regarding such assets.

The Agreement also provides for Sequent's use of VNG's assets "in furtherance of Asset Manager's business strategy." Staff believes that, in order to protect the interests of VNG and its customers, Sequent's use of VNG's assets should be limited to those assets remaining after VNG system supply needs are satisfied. This is consistent with Sequent's current practice.

The Agreement states further that VNG's consent to the transfer or assignment of the Agreement to a third-party may not be unreasonably withheld. Staff believes that any such transfer or assignment must first be presented to and approved by this Commission.

The attached proposed revised asset management and agency agreement incorporates the Staff's preferences regarding these matters.

Gas Pricing for Sales to VNG

In providing gas to VNG under the existing Agreement, Sequent is authorized to price gas based on the weighted average index price of VNG's entitlements for gas. That is, on a given day, gas delivered to VNG is not priced on the basis of what is actually taken at each receipt point, but rather at the weighted average of what VNG is allowed to take (i.e., its entitlement). Sequent may capture value by beating the weighted average entitlement point price. This practice increases the value-sharing benchmark by weighting gas purchases according to entitlements rather than actual purchases. As a result, value created under the Agreement is increased, but results in increased VNG cost of gas.

Staff favors a different approach to pricing VNG's gas purchases from Sequent. VNG should create virtual (or "logical") dispatch plans on a continuing basis, as though it was actually dispatching the gas, and provide those plans to Sequent. Sequent then schedules actual dispatch in whatever way it sees fit, but the price for gas billed to VNG is based upon VNG's own virtual dispatch. Thus, VNG creates and pays for its own least-cost dispatch plan, and Sequent is free to maximize margins taking that plan into account. These margins are then shared with VNG through the sharing mechanism.

Virtual dispatch has the advantage of approximating the dispatch that would have taken place if VNG was acquiring its own gas. The measure of value under this approach is a good approximation of the value attributable to the asset manager's actions. With this approach, however, it is crucial that the individual(s) responsible for creating the virtual dispatch plan at VNG do so in an independent manner and act in the best interests of VNG and its customers. Under a virtual dispatch method of pricing, VNG must retain detailed records of the dispatch plans developed and the rationale for such plans.

The proposed revised agreements incorporate a virtual dispatch model for pricing VNG's gas purchases.

Use of Actual Prices versus Index Prices for Sharing Benchmark and Off-System Sales

One difference between the Agreement and its implementation, in Staff's view, related to the price of gas used in the sharing calculation. Staff believes the Agreement and the Commission's Order clearly require the use of the actual cost of the gas; however, Sequent has always used gas price indices as the basis for its sharing calculation. In Staff's view, actual cost information is needed in order to assess the reasonableness of the indices used. Similarly, despite Sequent's assertion that VNG benefited from the use of price indices, without the actual cost of gas Staff was unable to verify whether the amount of revenue shared with ratepayers was correct.

As well as using indices for computing the cost of gas, Sequent also used indices for determining the sharing pool's off-system sales revenue for sales at pooling points. Staff found instances where Sequent was crediting the sharing pool at an index price, and then selling that gas to a third-party at a different, negotiated price. The incremental

profit or loss that Sequent made was not shared with VNG and its ratepayers. Staff believes that Sequent should have credited the sharing pool with the actual price that it received from these sales.

While Staff prefers that all aspects of the sharing calculation be based on actual prices, Staff also recognizes the difficulty of verifying actual prices for VNG gas and for off-system sales, because Sequent's gas purchases and sales are not always VNG-specific. Staff accepts that the revised asset management and agency agreement allows sharing calculations to be based on indices, with the explicit requirement that detailed records of all of Sequent's gas purchases and sales, at each VNG entitlement location, be maintained by Sequent. This will allow an audit of such actual costs to assess the materiality of any difference between the actual and the index cost of gas. Under the proposed revised agreements, records must be retained and audit rights extended for two years after the agreements expire.

As discussed further below, Sequent has also agreed to report the actual cost of its monthly gas purchases on a quarterly basis to Staff, and to maintain detailed supporting documents, including all relevant invoices.

Gas Storage

In reviewing gas storage operations, Staff identified two areas of concern. The first relates to the filling of storage during the summer months. VNG gives Sequent a target fill level for its gas storage capacity for the end of the storage-injection season, and Sequent fills to meet that target as it sees fit. The pattern in the last two years has been that Sequent has injected greater-than-ratable quantities in the early months of the April through October fill season, and less-than-ratable quantities in the later months of the fill season. Staff believes that use of a ratable fill over the storage injection season would have resulted in a lower overall cost to VNG. In the future, Staff recommends that VNG dictate the fill pattern to Sequent for pricing purposes, as a part of VNG's virtual dispatch plans. Staff's second concern relates to gas storage capacity VNG added in 2004. Staff believes that there may have been an impact on the cost to VNG's customers as a result of Sequent's pattern of filling VNG's share of that new storage. Staff notes that VNG and Sequent do not agree with Staff's analysis of this matter. VNG's use of virtual dispatch should also alleviate this concern.

Capacity Release

In October of 2002, VNG ended its practice of making gas capacity releases to large industrial customers for the transport of third-party supplied gas, in order to make off-system sales to third parties. United States Gypsum Company ("USGC") complained that this practice was operating to the financial disadvantage of VNG's system supply customers, because all of the proceeds of capacity releases flow back through VNG's purchased gas adjustment clause, while only half of the margins from off-system sales flow back to customers.

Staff reviewed a month of detailed transactions from the time period in which USGC alleged the practice to have occurred. The results of Staff's audit of February 2003 clearly support VNG's claim that off-system sales provide greater economic benefits for VNG customers than capacity release. The off-system sale with the smallest margin yielded \$0.43 per decatherm, while other off-system sales appear to have yielded considerably more. All were more than twice the value of the gas capacity in a release. This results because capacity releases are made pursuant to a Federal Energy Regulatory Commission tariff which limits the price VNG can charge. From the perspective of certain large industrial customers, capacity release is more beneficial than off-system sales. Staff's analysis, however, was from the perspective of all customers, not just one class of customers.

Indirect Sequent Costs

In its investigation, Staff found that Sequent has provided services to AGLSC on behalf of VNG since early 2001. Sequent passes the cost it incurs for these services to VNG through AGLSC. Staff notes that provisions of the AGLSC/Sequent Agreement appear to overlap and conflict with services provided to VNG by Sequent pursuant to the AMA. Staff believes that this overlap produces ambiguities regarding whether Sequent can or cannot charge certain services to VNG. Staff recommends that the agreements be redrafted to make one the controlling agreement and to clarify exactly which services can be charged to VNG from Sequent.³ Although Sequent and VNG dispute Staff's conclusions related to these costs, they have agreed that Sequent will no longer flow charges to VNG through AGLSC.

Staff, VNG, and Sequent have agreed that Sequent may charge VNG for future regulatory compliance costs related to the Commission's regulation of the proposed Agreements. These charges are not to be included in the calculation of the net margin under the proposed Asset Management and Agency Agreement, and are not to be recovered from VNG's customers through any gas cost recovery mechanism. Sequent shall not charge VNG for any costs incurred as a result of Staff's audit in this case.

Agreement Structure and Duration

The current Agreement covers asset management and gas purchasing activities. The Agreement also provides for optional renewal upon expiration without an explicit requirement for Commission approval of renewal. Staff believes that separate Gas

³ VNG has pending before the Commission Case No. PUE-2005-00025, Application for Approval of a Revised Service Agreement under Chapter 4 of Title 56 of the Code of Virginia (the "Service Agreement Proceeding"). VNG, in its September 8, 2005, Amended Reply to Confidential and Public Response of the Staff filed in that case, argues that due to resolution of Staff's concerns regarding the relationship between AGLSC and Sequent in the instant proceeding "the issue of contract approval as raised in the Petition for Reconsideration will be effectively mooted." While the agreement reached in the instant proceeding resolves Staff's concerns regarding the possible overlap of services that VNG receives directly from Sequent and indirectly from Sequent via AGLSC, Staff continues to believe that such third party affiliate arrangements are subject to prior Commission approval pursuant to Chapter 4 of Title 56 of the Code of Virginia.

Purchase and Sale and Asset Management and Agency Agreements are preferable. The activities are distinct and should be unbundled.

The Company has agreed to have separate agreements and they are attached as Appendix B. The Agreements do not provide for any extensions or renewals. VNG and Sequent prefer that the agreements terminate at the end of a heating season. Staff does not oppose this, and the proposed agreements would commence on November 1, 2005 and terminate on March 31, 2009.

Information Systems and Internal Controls

Sequent implemented a new computer-based system of controls and databases (termed "Endur") in October 2004 that has improved internal processes and related controls significantly. The Company's transaction processing and controls continue to evolve and improve. Staff's audit did find evidence of data entry and recording errors. These errors, however, were immaterial in aggregate.

The implementation of Endur was a significant step forward in improving Sequent's internal controls and transaction databases. As a result of Staff's audit, Sequent has agreed to implement a process for reconciling the prices and volumes of off-system sales at VNG's citygate delivery points with the prices and volumes that the value sharing pool receives. Sequent has made a commitment to continue to improve its controls and transaction processing, and has agreed to report on its progress on a quarterly basis.

VNG Oversight of the Agreement

Staff recommends that VNG establish a small management/operational group responsible for effective management oversight of Sequent's performance and operating practices affecting VNG, assign specific duties and responsibilities to the group, and establish specific goals for gas cost containment.

The Company has agreed to greatly strengthen its oversight of Sequent activities. An outline of the steps to be taken to improve VNG's oversight, and related operational roles, are outlined in the Company's work plan for improvement, as contained in Appendix C of this Report.

Recordkeeping

Staff and the Company have agreed that, although gas pricing shall be based on published index prices in the proposed revised agreements, Sequent shall maintain detailed records of the weighted average gas prices for Sequent purchases from and sales to third-parties, at each location, so that Staff may audit such costs and compare such prices to the index prices. These records, as well as all records related to transactions executed pursuant to the agreements, shall be maintained for a minimum period of two years after the agreements terminate. The Commission has full audit, examination,

review, and supervisory authority under Chapter 4 of the Code of Virginia for Sequent records for the same period of time

Reporting to the Commission

In Staff's view, current reports to the Commission should be changed to provide more relevant information necessary to monitor Sequent's performance effectively. VNG and Sequent have agreed to work with Staff towards implementing changes to how information on activities conducted under the agreements is reported, to be effective at the commencement of the revised agreements. Staff's specific recommendations on changes to report content are outlined as follows:

- Clear, comprehensive reporting of net effects of storage arbitrage
- Backup data for the following three storage arbitrage items reported currently: storage revenue, storage costs, and realized financial gains
- Provide a separate work sheet that reports at a minimum the following, for each month: (1) prices and volumes of gas injected into storage, (2) prices and volumes of gas withdrawn from storage, (3) WACOG for gas in storage, (4) market-to-market value of outstanding (financial) positions, and (5) summary of actions taken during the month, including physical gas bought, physical gas sold, financial positions settled, and incremental storage activity. Also provide a clear explanation of the computational logic in Work Sheet C and the Work Sheet on Storage Fill Pricing (sometimes labeled I, sometimes J, and sometimes K).

Staff also recommends the following technical changes to the report:

- The Quarterly Report currently does not provide enough clarity to Staff due to the significant amount of technical jargon and confusing language that is used. Staff recommends the development of a glossary that clearly defines all of the technical terms used in the Quarterly Report.
- The Quarterly Report is based on a calendar year while the value sharing mechanism is based on a November – October 31 contract year. Staff believes the reporting period and the contract period should be synchronized. To accomplish this, a final report for the current Agreement that expires on October 31, 2005 will be filed with activity for the month of October 2005 only. This will complete reporting under the current Agreement. The next Quarterly report shall report the months of November and December 2005 and January 2006 and will be the first report under the new agreements. Quarterly reporting will continue thereafter.
- The Quarterly Report's exhibits are not arranged in order of priority. Exhibit 3 is redundant. Staff recommends the following changes and rearrangement:
 - Exhibit 7, value realized year to date (no change)
 - Combine Exhibits 3 & 6. Use the last line of Exhibit 3 as a summary page, and then use Exhibit 6 as backup or support. Eliminate Tier 0,

since it is no longer used. Break out capacity costs separately in gas costs section of Exhibit 6. Consider combining revenues from VNG sales and revenues marketing into new subtotal, which is then compared to gas costs. Eliminate the column showing allocated margins.

- Exhibit 1 Commodity Use Exhibit 2 as a supporting document.
- Exhibit 4 Capacity Release (no change)
- Exhibit 5 Capacity Costs (no change)
- Staff recommends submitting the Quarterly Report in hard copy and on a CD in Microsoft Excel format

In order for Staff to monitor effectively the execution of a virtual dispatch pricing methodology, as proposed in the revised gas purchase and sale agreement, the following additional information should be reported:

- The detailed virtual dispatch plan for each day and the resulting cost to VNG
- Sequent's dispatch results for each day, for comparison purposes
- An explanation of any deviation in the virtual dispatch plan's cost from Sequent's actual dispatch costs greater than 10% for any month

In order for Staff to monitor the use of index pricing for sharing calculation purposes, Sequent should report the average weighted cost of its monthly baseload purchases at VNG entitlement points and supporting calculations. Sequent should also maintain data that will allow Sequent and/or Staff to compute the average weighted cost of its daily purchases.

In addition, Sequent and VNG should report, on a quarterly basis, their progress addressing Staff's findings regarding data recording errors.

The Company has agreed to implement Staff's recommendations and the proposed revised agreements include the above reporting requirements. Staff agrees that all reports described above will be filed on a confidential basis, given the sensitive commercial nature of the data contained therein, unless otherwise ordered by the Commission.

Final Agreement

As previously discussed, during its audit and investigation Staff identified certain issues of concern related to the current Agreement. The Staff, VNG, and Sequent worked together to resolve all of these issues by revising the Agreement to address Staff's concerns, as well as an initial up-front payment of \$1,000,000 from Sequent to VNG's customers that will be paid via VNG's Actual Cost Adjustment in the first quarter of 2006.

Conclusion

Staff believes that the proposed Asset Management and Agency Agreement and attached Gas Purchase and Sale Agreement sufficiently address the concerns raised regarding the current Agreement. Staff believes that the changes to be made at VNG and Sequent, as outlined in this report and the appendices to this report, provide the basis for satisfactory implementation and monitoring of the revised agreement. Accordingly, Staff believes the revised agreements, attached as Appendix B, are in the public interest and, therefore, meet the test of the Affiliates Act.⁴ Further, Staff supports the Commission's approval of the Asset Management and Agency Agreement and attached Gas Purchase and Sale Agreement, as well as the initial up-front payment, and recommends that the Commission find that all issues relating to the audit and investigation have been resolved as described in this report and that this investigation be closed.

⁴ Section 56-76 *et seq.* of the Code of Virginia (the "Affiliates Act") requires that the Commission approve all affiliate agreements as being in the public interest prior to a utility entering into such agreements.

APPENDIX A

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, SEPTEMBER 29, 2004

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COMMONWEALTH OF VIRGINIA, ex rel

STATE CORPORATION COMMISSION

CASE NO. PUE-2004-00111

Ex Parte, In Re Investigation of gas supply asset
assignment and agency agreement between
Virginia Natural Gas, Inc., and Sequent Energy
Management, L.P., f/k/a AGL Energy Services, Inc

ORDER ESTABLISHING AUDIT AND INVESTIGATION

On November 30, 2000, the State Corporation Commission ("Commission") granted approval¹ of an energy services agreement ("Agreement") between Virginia Natural Gas, Inc ("VNG"), and AGL Energy Services, Inc, now known as Sequent Energy Management, L.P. ("Sequent"). Under the terms and conditions of the Agreement, Sequent provides natural gas supply asset management services for VNG's non-distribution assets and operates as VNG's agent for procuring natural gas supplies. As noted in the November 30, 2000, Order Granting Approval, an essential task of the energy manager is to find, create, and take advantage of physical and financial market opportunities by managing VNG's assets in combination with other assets to meet the requirements of VNG's customers and other markets more efficiently. By allowing VNG to obtain natural gas procurement and asset management services from a consolidated and centralized source, the Agreement was designed to allow VNG to take advantage of economies of scale and other business efficiencies that would minimize the price of natural gas to VNG and its customers.

¹ See Application of Virginia Natural Gas, Inc., and AGL Energy Services, Inc., For approval of an Energy Services Agreement under Chapter 4 of Title 56 of the Code of Virginia, Case No. PUA-2000-00085, 2000 S C C. Ann. Rep 240 (hereafter Case No. PUA-2000-00085)

The Commission's November 30, 2000, Order Granting Approval in Case No. PUA-2000-00085 required VNG and Sequent to file quarterly reports with the Commission's Divisions of Public Utility Accounting and Energy Regulation to facilitate the Commission Staff's ("Staff") review and monitoring of the Agreement. The Commission further retained the authority to examine the books and records of any affiliate of VNG, whether or not regulated by the Commission, to facilitate the Staff's review of the parties' conduct under the Agreement and to ensure that the Agreement remained in the public interest.

On May 4, 2004, a Petition was filed by United States Gypsum Company ("USGC") requesting an audit and investigation of the Agreement approved in Case No. PUA-2000-00085. USGC's Petition was docketed in Case No. PUE-2004-00050.² This Petition alleged that VNG and its agent and affiliate Sequent have mismanaged VNG's assets under the Agreement to the detriment of VNG's firm and transportation customers. On September 20, 2004, the Commission entered an Order in Case No. PUE-2004-00050 granting USGC's Petition to the extent it requested that the Staff further audit and investigate the Agreement to determine whether the Agreement remains in the public interest.

NOW THE COMMISSION, upon consideration of the foregoing, hereby docketed this matter and directs its Staff to further audit and investigate the Agreement approved in Case No. PUA-2000-00085 and to file a Report addressing whether the Agreement remains in the public interest. The Staff is authorized to hire an outside consultant to assist in the audit and investigation, if necessary. VNG and Sequent are directed to cooperate with the Staff and to furnish all information requested by the Staff so it can complete its investigation in an efficient

² See Petition of United States Gypsum Company v. Virginia Natural Gas, Inc., and Sequent Energy Management f/k/a AGL Energy Services, Inc., Case No. PUE-2004-00050, Doc. No. 040540167, Preliminary Order (May 28, 2004) (hereafter this matter will be referred to as Case No. PUE-2004-00050).

and timely manner. In order to facilitate prompt and efficient discovery by the Staff, we will shorten the response time for VNG's and Sequent's answers to Staff interrogatories and data requests to seven (7) business days. No persons other than the Staff shall have discovery rights pending the filing of the Staff's Report.

Finally, depending on the nature of the Staff's Report and the findings and recommendations therein, we anticipate issuing an Order scheduling any further proceedings in this matter, including possible provisions for a public hearing.

Accordingly, IT IS ORDERED THAT

(1) This matter shall be docketed and assigned Case No. PUE-2004-00111.

(2) On or before March 15, 2005, the Staff shall investigate the Agreement approved in Case No. PUA-2000-00085 and file an original and fifteen (15) copies of a Report with the Clerk of the Commission containing the Staff's findings and recommendations on whether the Agreement remains in the public interest. The Staff's investigation shall, among other things,

(i) review the terms and conditions of the Agreement and determine whether any amendments or revisions to the Agreement are necessary, (ii) examine how the Agreement has been implemented by VNG and AGL Energy Services, Inc./Sequent; and (iii) audit transactions undertaken by VNG and AGL Energy Services, Inc./Sequent under the Agreement to determine whether the Agreement continues to be in the public interest. A copy of the Staff Report shall be contemporaneously served upon VNG and Sequent.

(3) VNG and Sequent shall respond to written interrogatories within seven (7) business days after the receipt of the same. Except as modified in this Order, discovery shall be in accordance with Part VI of the Commission's Rules of Practice and Procedure.

(4) This matter is continued pending further order of the Commission.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to John W Ebert, Esquire, and Elizabeth B Wade, Esquire, AGL Resources Inc., Ten Peachtree Place, Atlanta, Georgia 30309, Edward L Flippen, Esquire, and Anne K Dailey, Esquire, McGuireWoods LLP, One James Center, 901 East Cary Street, Richmond, Virginia 23219; C Meade Browder, Jr., Senior Assistant Attorney General, Division of Consumer Counsel, Office of the Attorney General, 900 East Main Street, Second Floor, Richmond, Virginia 23219, Louis R. Monacell, Esquire, and Brian R. Greene, Esquire, Christian & Barton, L.L.P., 909 East Main Street, Suite 1200, Richmond, Virginia 23219-3095; and the Commission's Office of General Counsel and Divisions of Public Utility Accounting, Economics and Finance, and Energy Regulation

APPENDIX B

ASSET MANAGEMENT AND AGENCY AGREEMENT

BETWEEN

VIRGINIA NATURAL GAS, INC.

AND

SEQUENT ENERGY MANAGEMENT, L.P.

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EXHIBIT A - ASSETS

EXHIBIT B - DAILY OPERATIONAL PROCEDURES

EXHIBIT C - GAS PURCHASE AND SALE AGREEMENT

EXHIBIT D - NET MARGIN CALCULATION

ASSET MANAGEMENT AND AGENCY AGREEMENT

THIS ASSET MANAGEMENT AND AGENCY AGREEMENT ("Agreement") is made, entered into, and effective as of November 1, 2005 by and between Virginia Natural Gas, Inc ("VNG")¹ and Sequent Energy Management, L P ("Asset Manager" or "Sequent"), both VNG and Asset Manager sometimes referred to herein collectively as "Parties" or singularly as "Party"

WHEREAS, in order to facilitate the management of VNG's physical assets (the "Physical Assets") and contractual assets (the "Contracts") listed on Exhibit A (collectively, the "Assets"), the Parties agree that Asset Manager will assume such obligations and act as agent for VNG, as necessary to effectuate such purpose;

WHEREAS, in connection with its role as Asset Manager, the Parties have agreed to enter into a gas purchase agreement designed to meet the firm full gas supply requirements of VNG under favorable terms and conditions throughout the term of this Agreement,

WHEREAS, to the extent certain Assets may be unused after Asset Manager has supplied VNG's full gas supply requirements, Asset Manager is willing to assume the obligations and risks that may lead to financial loss which accompany the potential for financial gain in connection with the value optimization of such otherwise unused assets,

WHEREAS, Asset Manager acknowledges that it is obligated at the end of the term hereof, or upon earlier termination pursuant to the terms hereof, to discontinue its management of the Assets which are subject to this Agreement,

WHEREAS, Asset Manager acknowledges that it is paramount in its role as Asset Manager, that it take no action nor omit to take any action, under any circumstances, the result of which would impair or adversely affect the reliability of VNG's system or service to its firm customers, and

NOW, THEREFORE, in consideration of the mutual agreements, covenants and conditions herein contained, VNG and Asset Manager agree as follows

1. Agency To the extent required to manage the Assets, Asset Manager shall be VNG's exclusive agent for the purposes set forth herein, and Asset Manager hereby agrees to such appointment and authorization. In order to effectuate Asset Manager's authority to act as VNG's agent, the Parties agree to execute such documents that may be required from time to time which evidence such agency or authority of Asset Manager

¹ AGL Services Company ("AGLSC") acts on behalf of VNG pursuant to an Agreement between VNG and AGLSC approved by the VSCC in Case No PUE 2005-00025

2. Duties. As Asset Manager and Agent for VNG, Asset Manager shall perform its duties in a prudent manner consistent with usual and customary standards in the industry and shall have the authority to undertake the following

(a) Manage the VNG's Assets as listed in Exhibit A, as well as any additional physical or contractual assets acquired by VNG during the Term of this Agreement (upon acquisition or disposition of such assets, VNG shall provide a revised Exhibit A to Asset Manager within 7 business days of any such revision); provided, however in all matters concerning the daily deployment of VNG's Assets under this Agreement, VNG and Asset Manager shall confer in accordance with the Daily Operational Procedures set forth in Exhibit B. The Parties also agree that in order to protect the integrity of VNG's system, VNG will consider Asset Manager's plan, but ultimately shall determine the optimum daily deployment of such Assets. Further, Asset Manager shall comply with all Virginia State Corporation Commission ("VSCC") orders, provided VNG shall file with the VSCC on or before November 1, 2005, an application to terminate any restrictions on the use of VNG's propane assets identified in Exhibit A as an asset to be used herein,

(b) Following the determination of the daily deployment of VNG's Assets, Asset Manager shall be responsible, consistent with the terms of this Agreement and the underlying agreements pertaining to the Contracts, to manage the use of such Assets, acting in its capacity as agent for VNG, including the use of such Assets in transactions with third parties, provided, however, in all matters concerning the daily deployment of VNG's Assets, VNG and Asset Manager shall confer on a daily basis and coordinate such daily asset deployment, as set forth in paragraph 2(a) above,

(c) Prudently manage on behalf of VNG, VNG's storage inventory accounts in relation to the Contracts shown in Exhibit A, and to cycle and trade such inventory as necessary and feasible to attempt to maximize the benefits of such inventory, including, without limitation, the injection and withdrawal of natural gas from inventory on VNG's behalf consistent with and in accordance with the provisions of this Agreement, and the Gas Purchase and Sale Agreement (a copy of which is attached hereto as Exhibit C) executed by the Parties. VNG's daily withdrawal rights will remain unaffected by Asset Manager's management of the storage capacity. Further, VNG shall determine the proportion of its underground storage capacity that it will retain for its customer requirements and inform Asset Manager of the retained quantity by March 25 of each year. This retained quantity of storage capacity shall be logically filled by October 31 of the same year, as directed by the VNG. In addition, Columbia's X-133 agreement (Chesapeake LNG) must be filled physically 100% and other market area storages between 90 and 95% by October 31 of each year, unless otherwise directed by VNG or permitted by the pipeline. Asset Manager will be solely responsible for replacing any gas in storage that is borrowed by Asset Manager. Such use by Asset Manager will in no way reduce VNG's Logical available storage. If, at the termination of this Agreement, VNG's Physical storage balances do not equal the VNG's Logical storage balances, determined by individual storage provider, VNG shall have the following options for deficiencies in Physical storage quantities. VNG may, at its sole discretion, require Asset Manager to inject those quantities into storage during the subsequent month(s) or require Asset Manager to pay for those quantities at [REDACTED]. For surpluses in Physical storage, VNG may at its sole discretion, require Asset Manager to remove this

gas from VNG's inventory during the subsequent month(s) or sell gas in place to VNG [REDACTED]

[REDACTED] If VNG desires, other remedies between the Parties can be negotiated.

(d) To sell gas or release capacity from time to time to third parties as agent for VNG, which transactions utilize the Assets of VNG which would not be required to meet the firm full gas supply requirements of VNG and would otherwise be unused. Asset Manager will make reasonably prudent efforts to maximize the value received from such sales and releases. In addition, Asset Manager shall not effectuate the release of any capacity or enter into any gas transactions with third parties which are not subject to recall provisions under the tariff of the applicable pipeline or that impair in any way whatsoever the use of VNG's Assets without prior approval of VNG, and;

(e) Take such other action on behalf of VNG where appropriate as the Parties may agree upon from time to time. The Parties agree that authorization for such actions need not be reduced to a written agreement and incorporated into this written Agreement, provided, however, any written confirmation of such action shall be faxed or emailed between the Parties.

3. Monthly Reports At the written request of VNG, Asset Manager will provide VNG with monthly management reports in a form, including supporting data, satisfactory to the VNG, detailing all activities undertaken for VNG pursuant to this Agreement, including, but not limited to the monthly revenue and expenses associated with such activities and any balancing accounts with the pipelines.

4. Consideration for Management Services In consideration for the services provided hereunder, the Asset Manager shall pay or cause to be paid to VNG a portion of the Net Margin, as defined in Exhibit D. In addition, Asset Manager agrees to execute a full requirements gas supply agreement for VNG in the form attached hereto as Exhibit C to meet the firm gas supply requirements of VNG as such requirements may be determined from time to time during this Agreement, up to VNG's contractual or physical asset constraints [REDACTED]

[REDACTED] Asset Manager agrees to bear all other costs associated with providing services under this Asset Management Agreement and the Gas Purchase and Sale Agreement (Exhibit C), including, but not limited to, any costs associated with scheduling and nominations, except as otherwise specifically provided for herein.

5. Net Margin Net Margin shall be created by off-system sales (OSS), capacity release, storage transactions, and transportation optimization. Net margin is all revenues net of expenses attributable to the service performed by Asset Manager and shall be determined, separately accounted for (the "VNG Book") and shared with VNG in accordance with the procedures set forth in Exhibit D. The VNG book shall be the book of record maintained by Asset Manager to record all transactions associated with this agreement. Asset Manager shall honor all existing capacity release agreements VNG has with its customers, provided, however, any revenue from such releases shall be included in the calculation of Net Margin in accordance with Exhibit D. Asset Manager shall account

for all transactions which are subject to the Net Margin calculation set forth in Exhibit D in the VNG Book and shall maintain appropriate accounting and supporting documentation for the Net Margin computation. Within forty days following each contract quarter, Asset Manager will prepare and submit to VNG for filing with the VSCC a report consistent with the directives of the VSCC, which reflects the current calculation of the Net Margin realized as a result of Asset Manager's undertaking in accordance with this Agreement. The information contained in the quarterly reports shall include the following information related to Asset Manager's purchases of gas for Customer at index price in accordance with Exhibit C: (i) the total costs for all gas purchases made by Customer at the flat FOM Index Price, for each of the pooling points where Customer has firm receipt entitlements, (ii) the total costs for all gas purchases made by Customer at the flat DICO, for each of the pooling points where Customer has firm receipt entitlements, for swing deliveries, and (iii) the total costs for all gas purchases made by Customer for Logical storage injections based on pricing as directed by Customer. Further, the quarterly report shall also include the following information related to the management of Customer's Assets: a summary of all transactions associated with the optimization of Customer's transportation and storage assets as well as all other commodity transactions between Customer and Asset Manager.

This information shall be provided for monitoring purposes only and shall not be used to calculate prices to Customer for gas under Exhibit C.

6. Penalties/Imbalance Charges Asset Manager shall bear sole financial responsibility for any penalties or damages under any Agreements or Assets to the extent such penalties or damages result from the Asset Manager's failure to perform any obligation for which it has assumed or been assigned responsibility under this Agreement. Asset Manager shall bear sole financial responsibility, and shall pay to the applicable pipeline company (or reimburse VNG if VNG is required to pay) any imbalance or overrun penalty, cost, charge, or cash-out cost (collectively referred to in this Agreement as an "Imbalance Charge") assessed as a result of an over-delivery or under-delivery of gas. Notwithstanding the foregoing, the Asset Manager shall bear no such responsibility for any Imbalance Charge to the extent that an Imbalance Charge is assessed as a result of Asset Manager's following VNG's written or verbal instructions.

7. Not a partnership This Agreement is not intended to create, and shall not be construed to create, any relationship of partnership or joint venture between the Parties. VNG shall, upon request by the Asset Manager, execute such additional powers of attorney or other instruments as may be necessary to enable Asset Manager to carry out its responsibilities and give effect to the terms of this Agreement.

8. Unenforceability If any provision of this Agreement is determined to be invalid, illegal or otherwise unenforceable for any reason by a court or regulatory authority of competent jurisdiction, and in the event that the overriding purpose of this Agreement is not frustrated by such determination, the remaining terms and conditions of this Agreement shall remain in full force and effect to the fullest extent permitted by law. In the event this Agreement remains in full force and effect, the Parties agree to make a good faith effort to

replace, modify or amend the affected provisions. The obligation to perform all of the terms and conditions shall remain in effect regardless of the performance of any invalid term by the other Party.

9. Governmental Out Either Party may terminate this Agreement in the event that any governmental entity or agency having jurisdiction, including but not limited to the Federal Energy Regulatory Commission, the VSCC or the Virginia Legislature, changes its statutes, regulations, or issues an order which (a) significantly restricts the transactions contemplated in this Agreement, (b) requires VNG to assign to its customers portions of the Contracts subject to this Agreement, or (c) significantly and materially modifies the nature of the services provided by Asset Manager. Provided, however, in the event such action(s) occurs the Parties will first endeavor to mutually agree on revisions to this Agreement to comply with such regulatory changes. In the event such termination occurs as provided by this Article, the Parties agree that any penalties, compensation or expenses attributable to the early withdrawal of gas, removal of Assets or otherwise associated with the termination of this Agreement will be mutually agreed to by the Parties.

10. Issue Resolution In the event issues or questions arise between the Parties or among individuals having responsibility (e.g. personnel of either Party from gas operations, accounting, regulatory or commercial business functions) for any matter that affects the implementation of a provision of this Agreement, the Parties agree that the following steps shall be followed for resolution of such issues: (1) the personnel directly involved in the day to day undertakings giving rise to the issues shall meet and, based upon the resource and reference materials available to the Parties, will determine if a mutually agreeable resolution of the issue(s) is possible. If a resolution of the issue(s) is reached, a memorandum will be written to AGL Services Company, office of the General Counsel, which identifies the issue(s) and the resolution, or (2) if a resolution of the issue is not reached within five (5) days of the date the Parties meet to resolve the issue, a memorandum to AGL Services Company, office of the General Counsel shall be submitted which outlines the matter(s) that require clarification or may be in dispute. Based upon the information contained in the memorandum and any other data or facts gathered subsequent to the request for resolution, the General Counsel or his representative for AGL Services Company, shall resolve the issue(s) involved. Resolution of any issue(s) shall be confirmed in writing and communicated to the Parties. All communications regarding the resolution of any issues shall be retained by the AGL Services Company Legal Department as privileged information.

11. Term The term of this Agreement shall commence on the effective date of the Agreement and terminate on March 31, 2009 unless terminated prior to such date pursuant to the provisions of this Agreement. Either party may terminate this Agreement for a material breach of the Agreement by the other party that remains uncured twenty (20) days after receipt from the non-breaching party of notice of such breach. Notwithstanding the foregoing, the terms and conditions of this Agreement shall survive solely as to any individual transactions under this Agreement that had previously been approved by VNG in effect as of the date of such termination until such transactions are terminated or expire at the earliest date permitted by their terms. VNG, upon written notice to the

Asset Manager, may at any time demand that Asset Manager discontinue its management of the Assets that are the subject of this Agreement for any reason including, but not limited to, an Order by the VSCC directing VNG to discontinue this Agreement.

12. Indemnity Each Party ("Indemnitor") shall indemnify, defend and hold harmless the other Party ("Indemnitee"), and its officers, directors, employees, heirs, successors and assigns from and against any and all third-party claims, demands, suits, actions, liabilities, losses, damages, judgments, and legal or other expenses (collectively "Claims") that may arise directly from or in connection with the performance or non-performance of Indemnitor's obligations under this Agreement. If a claim is asserted or action brought against Indemnitee as to which it believes it is entitled to indemnification under this Article, Indemnitee shall promptly notify Indemnitor in writing of such Claim. Prompt notice as contemplated in the preceding sentence shall mean such notice as would be required to enable Indemnitor to assert and prosecute appropriate defenses relative to such Claim or action in a timely manner. If Indemnitee fails to give Indemnitor prompt notice of any claim or action as provided in this Section, Indemnitor shall have no obligation to indemnify pursuant to this Article. Upon receipt of a notice of request for indemnification, Indemnitor shall promptly make a determination of whether it is required to indemnify and shall promptly notify Indemnitee in writing of that determination. Notwithstanding the foregoing, the indemnification under this Section shall not be available with respect to any claim to the extent any claim results from the gross negligence, breach or willful misconduct of the Indemnitee.

13. Conflicting agreements VNG will not, during the term of this Agreement, contract with any other party or entity for services that duplicate the services provided by the Asset Manager under this Agreement and the Asset Manager shall serve as VNG's exclusive Asset management agent. Moreover, VNG agrees that, during the term hereof, it will not undertake any Asset management initiatives on or for its own account except for any Asset management activities permitted by VNG's tariff, and Asset Manager agrees that during the term hereof, it will not undertake to manage any assets that may conflict with its responsibility to perform its obligations under this Agreement.

14. Confidentiality The commercially sensitive terms and conditions of this Agreement shall remain confidential during its term and neither Party shall disclose any of the terms, conditions, obligations, duties, promises, benefits or liabilities set forth in this Agreement without the express prior written permission of the other Party. This Agreement may be filed with the VSCC under seal, or with any other regulatory agency or body having jurisdiction in accordance with applicable procedures designed to ensure the trade secret and confidential status of the Agreement, to the extent required. In addition, each Party shall be free to disclose such facts as may be required by applicable statute, rule, regulation, court, or regulatory body, or as may be necessary to implement the agency established by this Agreement, including disclosure to the pipelines limited to the existence of this Agreement, without need of securing the prior permission of the other party. The Parties agree however, that either Party may require any third party to execute an acceptable Confidentiality Agreement prior to its receipt of this Agreement and/or disclosure of any of its terms, conditions, obligations, duties, promises, benefits or liabilities contained herein.

15. Force Majeure. If either Party is rendered unable, wholly or in part, by Force Majeure to perform its obligations under this Agreement, other than the obligation to make payments then, or

subsequently, due attributable to Gas delivered prior to the event of Force Majeure it is mutually agreed that performance of the respective obligations of the Parties, so far as they are affected by such Force Majeure, shall be suspended without liability from the inception of any such inability until it is corrected but for no longer period. No Party shall, however, be required against its will to settle any labor disputes.

15.1 The term "Force Majeure" means an event that (i) was not within the control of the Party claiming its occurrence; and (ii) could not have been prevented or avoided by such Party through the exercise of due diligence. Events of Force Majeure include, without limitation by enumeration, acts of God, earthquakes, epidemics, fires, floods, landslides, lightning, hurricanes, numbered or named storms by the U.S. National Weather Service, washouts and other similar severe natural calamities, acts of public enemy, wars, blockades, insurrections, riots, civil disturbances, explosions, breakage or freezing of lines of pipe used to enable Asset Manager to deliver or VNG to receive or subsequently transport or use Gas under this Agreement, imposition by a regulatory agency, court or other governmental authority having jurisdiction of binding laws, conditions, limitations, orders, rules or regulations that prevent or prohibit either Party from performing, provided such governmental action has been resisted in good faith by all reasonable legal means, or any other cause of a similar type.

15.2 Neither Party shall be entitled to the benefit of provisions of Force Majeure to the extent performance is affected by any or all of the following circumstances: (i) the curtailment of interruptible or secondary firm transportation, (ii) the Party claiming excuse failed to remedy the condition and to resume the performance of such covenants or obligations with reasonable dispatch, (iii) economic hardship, and (iv) the loss of storage facilities, in whole or in part, unless, and only to the extent that, such occurrence results in, or is the direct result of, a recognized Force Majeure event under the underlying Storage Agreement (listed in Exhibit A) for the storage service provider.

15.3 The Party whose performance is prevented by Force Majeure must provide prompt notice to the other Party. Initial notice may be given orally, however, written notification with reasonably full particulars of the event or occurrence is required as soon as reasonably possible. Upon providing written notification of Force Majeure to the other Party, the affected Party will be relieved of its obligation to make or accept delivery of Gas as applicable to the extent and for the duration of Force Majeure, and neither Party shall be deemed to have failed in such obligations to the other during such occurrence or event. However, due to the paramount supply obligations of VNG to its customers, any declaration of Force Majeure by Asset Manager must be first approved and accepted in writing by VNG in its sole discretion, before any such declaration of Force Majeure by Asset Manager shall take effect between the VNG and Asset Manager. Provided, however, such approval and acceptance shall not be unreasonably withheld. In addition, once Customer has received a timely written notification from Asset Manager, if Customer does not approve and accept or reject such declaration of Force Majeure within two business days, Customer shall be deemed to have approved and accepted such declaration. Absent VNG's written approval and acceptance of a declaration of Force Majeure by Asset Manager, or waiver by VNG as set forth herein, such Force Majeure declaration shall have no legal effect between VNG and Asset Manager.

16. Adequate Assurance When reasonable grounds for insecurity of performance arise, VNG may demand adequate assurance of performance. Adequate assurance shall mean sufficient security in the form and for the term reasonably specified by VNG, including, but not limited to, a standby irrevocable letter of credit, a prepayment, a security interest in an asset acceptable to VNG or performance bond or guarantee by creditworthy entity. In the event Asset Manager shall (i) make an assignment or any general arrangement for the benefit of creditors; (ii) default in any performance obligation to VNG, (iii) file a petition or otherwise commence, authorize, or acquiesce in the commencement of proceeding or cause under any bankruptcy or similar law for the protection of creditors or have such petition filed or proceeding commenced against it, (iv) otherwise become bankrupt or insolvent (however evidenced), or (v) be unable to pay its debts as they fall due, then VNG shall have the right to either withhold and/or suspend payment, and/or terminate this Agreement without prior notice, in addition to any and all other remedies available hereunder.

17. Damages Neither Party shall be liable for punitive, exemplary, consequential or incidental damages arising from any breach or default under this agreement or from any act or omission under or in connection with this agreement except as otherwise set forth herein or in the Gas Purchase and Sale Agreement.

18. Assignment This Agreement shall be binding upon and inure to the benefit of the Parties, their successors and assigns. Neither Party shall assign this Agreement without the prior written consent of the other Party, which consent may be withheld at a Party's sole discretion, and prior approval by the VSCC, provided, however, that either Party may assign this Agreement to a wholly-owned affiliate or an entity that succeeds as a result of merger or reorganization without the consent of the other Party subject to prior VSCC approval so long as such wholly-owned affiliate or other entity agrees in writing to be bound by the terms of this Agreement following such assignment.

19. Necessary Authorizations. The Agreement is subject to all present and future valid orders, rules, and regulations of any regulatory body having jurisdiction. Each party represents that it has all necessary regulatory and other governmental authorizations for the transactions contemplated hereunder. The Parties agree to timely make all regulatory filings, including quarterly reports, that may be needed to effectuate this Agreement.

The Parties further agree that they will carry out their respective obligations hereunder, in compliance with all valid and existing laws, orders, rules or regulatory requirements currently in existence or which may be enacted in the future.

19.1 The Parties expressly recognize that VNG may have certain reporting requirements to the VSCC in connection with this Agreement. Asset Manager expressly covenants to timely provide to VNG any information in its possession necessary for such reports and in no event to provide such information to VNG no less than five (5) days prior to the due date for such reports, provided however that Asset Manager be given no less than seven (7) days to respond after a request for information.

20. Notice/Waiver The failure of a Party to give notice to any other Party or to take any other steps in exercising any right, or in respect of the breach or not of any provision of this Agreement, shall not operate as a waiver of that right, breach or provision nor shall any single or

partial exercise of any right preclude any other or future exercise of that right or the exercise of any other right, whether in law or in equity or otherwise

20.1 Any notice, request, demand or statement which either Party may desire to give to the other, shall be in writing and may be mailed by registered or certified mail, return receipt requested, to the post office address of the Parties shown below, or by facsimile transmission followed by written confirmation by regular mail, unless otherwise provided in this Agreement

ASSET MANAGER Notices

Sequent Energy Management, L.P
Attn: Managing Director, Asset Management
1200 Smith Street, Suite 900
Houston, Texas 77002,
Phone (832) 397-1731
Telecopy (832) 397-1709

Operational Matters

Sequent Energy Management, L.P
Attn: Director, Asset Management (for VNG)
1200 Smith Street, Suite 900
Houston, Texas 77002,
Phone (832) 397-1703
Telecopy (832) 397-1709

Billing Inquiries

Sequent Energy Management, L.P
Attn: Raja Sarathy
1200 Smith St, Suite 900
Houston, TX 77002
Phone (832) 397-1736
Telecopy (832) 397-1722

VNG

Operational Matters

Virginia Natural Gas, Inc
Attn: Ann Chamberlain
5100 East Va. Beach Blvd
Norfolk, VA 23502
Phone (757) 4665406
Telecopy (757) 4665437

Notices and Billing Inquiries

Virginia Natural Gas, Inc
C/o AGL Services Company
Attn: Steve Cave
Dept. Code 1180
P.O. Box 4569

Atlanta, GA 30302-4569
Phone (404) 584-4414
Telecopy (404) 584-4233

Notice shall be deemed received five (5) business days following mailing if by registered or certified mail or upon sender's receipt of transmission continuation if by facsimile transmission

20.2 Either of the Parties may from time to time designate a different address. Routine communications may be delivered by registered, certified or ordinary mail, or by telephone or telecopy if the Parties agree.

21. Document retention. The Parties shall preserve all pertinent books and records relating to activities performed under this Agreement for a period of at least two (2) years after the termination of this Agreement or such other time period required to support any related regulatory filings. Each Party shall have the right, from time to time, to audit the books of the other Party as they pertain to the activities performed under this Agreement. A Party's rights under this paragraph shall survive for two years after the termination of this Agreement.

22. Entire Agreement. This Agreement together with its Exhibits constitutes the entire understanding and agreement of the Parties with respect to the management of the Assets and effective upon the execution of this Agreement by the respective Parties, any and all prior agreements, understandings or representations with respect to this subject matter are hereby terminated and cancelled in their entirety and of no further force or effect.

23. Governing Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Virginia.

24. Definitions. - Any capitalized term not defined in this Agreement shall have the meanings assigned such terms in the Gas Purchase and Sale Agreement.

25. Counterparts. This Agreement may be executed in multiple identical counterparts, each of which shall have the force and dignity of an original and all of which shall constitute but one and the same Agreement. Transmission by telecopier of a facsimile of the signature page hereof will be conclusive evidence of the due execution of this Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the day and year first written above, by their duly authorized Representatives.

VNG

Virginia Natural Gas, Inc.

ASSET MANAGER:

Sequent Energy Management, L.P.

By _____
Title _____

By _____
Title _____

Exhibit A - Assets

VIRGINIA NATURAL GAS

WILLIAMS - TRANSCONTINENTAL GAS PIPELINE

		Deliverability	Capacity	Deliv to Gate	Expires
FT Demand Contract 3924					
Station 30	6,108	17%			3/31/2008
Station 45	8,983	25%			3/31/2008
Station 50	20,839	58%			3/31/2008
Station 62					3/31/2008
Total Telescoped Capacity	35,930			0	

FT Demand Contract 6507

Zone 2-6 Capacity	545	98%			10/31/2012
Zone 3-6 Capacity	11	2%			10/31/2012
Total Capacity	556			0	

FT Demand Contract 1031211

	14,625			0	7/31/2005 (6 Month Evergreen)
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Transco GSS (.3768) Deliverability

		2,070		0	3/31/2013
Transco GSS (.3768) Capacity			98,790		3/31/2013

WSS (3767) Deliverability

		8,523		0	3/31/1998
WSS (3767) Capacity			724,500		3/31/1998

ESS (6558) Deliverability

		8,970		0	10/31/2013
ESS (6558) Capacity			90,254		10/31/2013

Total

DOMINION - DOMINION TRANSMISSION INC

FTNN Demand Contract 100007

Base Contract	19,852				3/31/2012
Phase I Implementation	20,000				10/31/2015
Phase II Implementation	13,500				10/31/2016
Phase III Implementation	5,000				10/31/2017
Total MDQ	58,352			57852	

FTNN Demand Contract 700005

Base Contract	15,148				3/31/2012
Phase I Implementation	20,000				3/31/2015
Phase III Implementation	5,000				3/31/2017
Total MDQ	40,148				

FTNN Demand Contract 100104

	15,225				10/31/2015
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FTNN Demand Contract Mid Atlantic

	25,000				10/31/2014
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FT Demand Contract Mid Atlantic

	13,000				10/31/2014
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FT Demand Contract 200088

	10,000				3/31/2008
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GSS (300008) Base Deliverability	15,148			3/31/2012
GSS (300008) Base Capacity		789,000		3/31/2012
GSS (300008) Phase I Deliverability	20,000			3/31/2015
GSS (300008) Phase I Capacity		1,040,000		3/31/2015
GSS (300008) Phase II Deliverability	13,500			3/31/2016
GSS (300008) Phase II Capacity		702,000		3/31/2016
GSS (300008) Phase III Deliverability	5,000			3/31/2017
GSS (300008) Phase III Capacity		260,000		3/31/2017

GSS (300107) Deliverability	15,225			3/31/2015
GSS (300107) Capacity		761,250		3/31/2015
GSS (300107) Deliverability	25,000			3/31/2014
GSS (300107) Capacity		1,500,000	93873	
Cove Point - FPS-1 Demand	10,000			4/15/2006
Cove Point - FPS-1 Capacity		100,000		4/15/2006
Cove Point - FTS-1 Demand	10,000		10000	4/15/2006
Total	161,725	93,873	5,052,250	103873

NISOURCE - COLUMBIA GAS TRANSMISSION CORP.

FT Demand Contract - FTS 38115	57,970		57970	3/31/2010
FT Demand Contract - FTS 65066	38,000		38000	10/31/2019
FT Demand Contract - SST 60536 (Oct-Mar)	14,625			3/31/2015
FT Demand Contract - SST 60536 (Apr-Sep)	7,313			
FT Demand Contract - SST 38088 (Oct-Mar)	49,030			3/31/2006
FT Demand Contract - SST 38088 (Apr-Sep)	24,515			

FSS (53004) Deliverability	49,030		49030	3/31/2005
FSS (53004) Capacity		2,848,655		
FSS (60537) Deliverability	14,625		14625	3/31/2015
FSS (60537) Capacity		731,250		
Ches LNG - (35889) Deliverability	52,090		52090	Evergreen
Ches LNG - (35889) Capacity		778,500		
Total			211715	

NISOURCE - COLUMBIA GULF TRANSMISSION CORP

FT Demand Contract - FTS-1 (38070)	51,479		0	10/31/2009
Total			0	

VNG PEAKING SERVICE

James City Propane			20016	
Chesapeake Propane			40032	
Pivotal Propane ²			28800	
Satelite LNG			<u>14400</u>	
Total			103248	

² Subject to prior VSCC approval

TOTAL VNG

476,688

DAILY OPERATIONAL PROCEDURES

Physical Dispatch

Prior to 9 00 a.m. Eastern Clock Time ("ECT") each day VNG³ and Sequent will communicate to establish the "Daily Plan" described below, based upon system operational parameters of the VNG. VNG will provide Sequent with the Five-Day Gas Demand Forecast for VNG. Sequent will maintain the records of the Gas Supply Plan and will provide copies as needed to VNG. VNG will consider Sequent's plan, but ultimately shall determine the optimum "Daily Plan" for deployment of the VNG's Assets.

For daily nominations

i) Sequent will be responsible for submitting nominations on the Electronic Bulletin Board ("EBB") of the VNG and on the pipelines of the VNG with such nominations to be completed pursuant to the applicable pipeline tariffs.

ii) VNG will be responsible for confirming Sequent's nominations on its behalf at the City Gate Delivery Points, such confirmations to be completed pursuant to the applicable pipeline tariff.

iii) Prior to 5 00 p.m., ECT of each day, VNG will provide an update of the Five-Day Gas Demand Forecast and shall provide additional updates throughout the day when warranted due to a significant change.

iv) Both Parties shall confer and make revisions to the daily nominations as described in Exhibit C. If such revisions require nomination changes, Sequent will make any intra-day nomination changes. VNG will confirm any intra-day nomination changes. Nominations by Sequent and confirmations by VNG will be completed pursuant to the applicable pipeline tariff.

v) Prior to 5 00 p.m. ECT of each day VNG will provide Sequent with final data on consumption levels for the prior day including firm and interruptible demand volumes via the afternoon Daily Operating Report "DOR".

After finalization of Next Day-2 ("ND2") scheduled volumes of each day, VNG will provide Sequent with final data on consumption levels for the prior day including firm and interruptible demand volumes via the afternoon (PM) DOR.

³ AGL Services Company ("AGLSC") acts on behalf of VNG pursuant to an Agreement between VNG and AGLSC approved by the VSCC in Case No. PUE 2005-00025.

Logical Dispatch

VNG will nominate gas quantities to be purchased on a monthly basis, at requested receipt points with delivery to VNG's citygate, as well as purchases for storage injections, no later than 9 00 a.m. ECT three business days prior to the day of the NYMEX settlement for the following month. By 9 00 a.m. ECT each business day for the next day flow, on Fridays for weekend and Monday flow, and on the business day prior to a holiday, VNG will provide Sequent its logical dispatch for the appropriate day. Included in such logical dispatch will be instructions on how the nomination is to be changed based on actual required flows.

A 5-day forecast of customer requirements and asset utilization will be provided to Sequent by VNG for planning purposes.

EXHIBIT C

GAS PURCHASE AND SALE AGREEMENT

Between

VIRGINIA NATURAL GAS, INC

and

SEQUENT ENERGY MANAGEMENT, L P.

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GAS PURCHASE AND SALE AGREEMENT

Effective November 1, 2005, this Agreement is made and entered into by and between Virginia Natural Gas, Inc. ("Buyer" or "VNG")¹, and Sequent Energy Management, L.P. ("Seller"), both Buyer and Seller sometimes referred to collectively as ("Parties") or singularly as "Party "

The Buyer and Seller hereby agree as follows

I. Definitions

1.1 "Agreement" means the provisions of this document as it may be amended from time to time subject to prior VSCC approval

1.2 "Buyer's Purchase Requirement" or "BPR" shall mean for any day, the Logical quantity of Gas required by Buyer, if any, not including BSRR, NNW, or NSW. Therefore BPR = DDR-NNW-NSW-LNGW-PW. BPR shall be inclusive of all fuel requirements including, but not limited to, system fuel, company use and unaccounted-for Gas on Buyer's system and that of Transporter

1.3 "Buyer's Storage Refill Requirement" or "BSRR" shall mean Buyer's Storage Refill Requirement which is that Logical quantity of Gas needed by Buyer to be injected into its storage or LNG inventories over each Summer Period, which is referred to in Section 4.1 and determined by Buyer prior to the beginning of the Summer Period

1.4 "Btu" (British Thermal Unit) means the amount of heat energy required to raise the temperature of one pound of water from fifty-nine-degrees Fahrenheit (59°F) to sixty degrees Fahrenheit (60°F), as determined on a dry basis

¹ AGL Services Company (AGLSC) acts on behalf of VNG pursuant to an Agreement between VNG and AGLSC approved by the VSCC in Case No. PUE 2005-00025

1.5 "Cavern" shall be the applicable in-ground storage facility contracted between the Buyer and the Transporter

1.6 "Day" shall mean that period of twenty-four (24) consecutive hours as defined in the Transporter's FERC Tariff

1.7 "Dekatherm" or "dt" shall mean the quantity of heat energy which is equivalent to (1) MMBtu

1.8 "Delivery Point(s)" means the delivery point or points designated from time to time in Buyer's transportation agreements with Buyer's Transporter where Buyer receives Buyer's Transporter(s) Gas into its system

1.9 "Daily Demand Requirement" or "DDR" shall mean the Company's forecasted demand for any given day.

1.10 "Daily Purchase Requirement" or "DPR" shall mean that daily Logical quantity of gas nominated for purchase from Seller from time to time during any month in accordance with Buyer's daily operating procedures as defined in Exhibit B.

1.11 "Daily Storage Injection Quantity" or "DSIQ" shall mean that portion of the BSRR logically nominated for delivery at the Receipt Points for a given day DSIQ shall be inclusive of all Transporter's fuel requirements

1.12 [REDACTED]

1.13 "FERC" means the Federal Energy Regulatory Commission or any successor government authority

1.14 [REDACTED]

[REDACTED]

[REDACTED]

1.15 "Gas" or "Natural Gas" means the effluent vapor stream (including liquid hydrocarbons) in its natural state produced from wells, including all hydrocarbon and nonhydrocarbon constituents and including casinghead gas produced with crude oil, and residue gas resulting from the processing of well gas or casinghead gas and, at the time of delivery from Seller to Buyer, satisfying the quality specifications as set forth in Transporter's FERC approved tariff. Gas shall also include LNG.

1.16 "LNGW" means Buyer's withdrawals from its on-system LNG facility or its LNG contracts with others.

1.17 "Logical" or "Logically" refers to the virtual supply or transportation path as determined by Buyer and used for billing purposes.

1.18 "Maximum Daily Quantity" or "MDQ" shall mean the maximum quantity as identified in Buyer's firm transportation contracts.

1.19 "Mcf" means one thousand (1,000) cubic feet of Gas as determined on the measurement basis set forth in this Agreement.

1.20 "MMBtu" means one million (1,000,000) Btu.

1.21 "Month" shall have the same meaning as that in Transporter's FERC Tariff.

1.22 "Monthly Purchase Requirement" or "MPR" shall mean the Logical quantity of gas nominated by Buyer each month for daily ratable purchases to be determined by Buyer in accordance with Section 2.2.

1.23 "Most Cost Effective Transportation Path" shall mean the lowest cost method of effectuating the Logical delivery of quantities from the applicable receipt points to the delivery points.

utilizing the Assets consistent with supply reliability considerations, and shall be determined by Buyer and provided to Seller pursuant to Section 2. The determination of the Most Cost Effective Transportation Path shall be relevant for determining prices under Section 5 of this Agreement. Seller shall have no obligation to follow such determination in arranging physical deliveries of gas under this Agreement.

1.24 "Nominated Storage Withdrawals" or "NSW" shall mean the quantity of gas nominated from Buyer's Storage Caverns or LNG facilities.

1.25 "No-Notice Injections" or "NNI" shall mean the quantity of gas injected into the Buyer's Storage Caverns via No-Notice.

1.26 "No-Notice Withdrawals" or "NNW" shall mean the quantity of gas delivered to Buyer's city gate pursuant to the Transporter's tariff.

1.27 "PW" means Buyer's withdrawals from its propane facilities or pursuant to contracts for vaporized propane from third parties.

1.28 "Physical" or "Physically" refers to the actual supply or transportation path used for system dispatch.

1.29 "Receipt Points" shall mean such Receipt Point(s) designated from time to time in Buyer's transportation agreements with Transporter.

1.30 "Summer Period" shall mean the period from April 1st through October 31st of each year unless for a particular storage service the period is extended or reduced by mutual agreement of Buyer and Seller to be consistent with the injection period as defined by Transporter.

1.31 "Third Party Gas" or "TRP" shall mean that quantity of gas delivered to Buyer's city gate arranged by Seller.

1.32 "Transporter" shall mean the pipeline taking Buyer's Gas at the Receipt Points and effectuating delivery of Gas to Buyer's Delivery Points or the pipeline effectuating delivery of TRP to Buyer's city gate

1.33 "Winter Period" shall mean the period from November 1 through March 31st unless for a particular storage service the period is extended by mutual agreement of Buyer and Seller to be consistent with the withdrawal period as defined by Transporter

1.34 "Winter Period Injection Quantity" or "WPIQ" shall be the quantity of gas Buyer agrees to buy and Seller agrees to deliver during any day, month, or longer period within the Winter Period as requested by Buyer and scheduled into the applicable Cavern or LNG facility by the Transporter exclusive of the NNI

II. Sale and Purchase

2.1 Subject to the terms of this Agreement, each Day if and to the extent requested by Buyer, Seller agrees to Physically deliver and Logically sell, and Buyer agrees to Physically receive and Logically purchase from Seller, quantities of gas as instructed by Buyer. Sales and purchase quantities will be based on Buyer's Logical nominations and deliveries and receipts will be based on Buyer's Physical dispatch.

2.2 Logical Monthly Nomination Each month, no later than 9:00 a.m. EST three business days prior to the day of the NYMEX settlement for the following month, VNG shall notify Seller in writing of (i) the MPR for the following month and (ii) the mix of the Assets, including the Most Cost Effective Transportation Path from receipt point(s) to delivery point(s), that VNG designates to effectuate delivery to the City Gates of the MPR and the quantity of storage deemed to be withdrawn for the month, as applicable. For the avoidance of doubt, the phrase "deemed to be" as used in this agreement shall refer to the Logical nomination and shall mean that Seller shall have no obligation to actually inject or withdraw such quantity from storage and that Seller may satisfy VNG's requirements through other sources of supply. Accordingly, Seller shall not be obligated to Physically arrange any nomination in accordance with VNG's nominations, so long as Seller otherwise complies with this Agreement.

2.3 Logical Daily Nominations Each business day no later than 9:00 a.m. Eastern Clock time for next day flow, on Fridays for weekend and Monday flow, and on the business day prior to a holiday, Buyer will provide Seller its nomination for DPR for the appropriate day and the quantity of storage deemed to be withdrawn for the day, as applicable. For the avoidance of doubt, the phrase "deemed to be" as used in this agreement shall refer to the Logical nomination and shall mean that Seller shall have no obligation to actually inject or withdraw such quantity from storage and that Seller may

satisfy VNG's requirements through other sources of supply. Accordingly, Seller shall not be obligated to Physically arrange any nomination in accordance with VNG's nominations, so long as Seller otherwise complies with this Agreement. Included in such nomination will be instructions on how the nomination is to be changed based on actual required flows. For clarification, VNG's nomination of the DPR over a weekend or holiday that results in the Asset Manager purchasing non-ratable daily quantities shall result in such non-ratable quantities to be priced [REDACTED]. VNG shall provide Seller in writing with VNG's initial DPR for the appropriate day, including the Most Cost Effective Transportation Path from receipt point(s) to delivery point(s).

2.4 If Buyer's nominations for any day results in surplus gas purchased and such surplus gas is not injected into storage, Buyer will sell back to Seller such excess gas [REDACTED] if Seller is informed by 9:00 a.m. ECT for day-ahead gas flow, [REDACTED] if such notification is after 9:00 a.m. ECT for day ahead gas flow or is for a non-ratable volume over a weekend or holiday. If Buyer's nominations do not result in sufficient gas to satisfy Buyer's requirements and Buyer has adequate capacity to move additional gas on an intra-day basis, then Seller shall sell the additional gas required at [REDACTED].

III. Delivery of BPR, DSIQ, WPIQ, NNW, NSW, and/or TRP

3.1 Subject to the terms and conditions of this Agreement, and the transportation and storage agreements between Buyer and Transporter(s), Seller shall nominate or cause to be nominated with Transporter the BPR, if any, the DSIQ, if any, the WPIQ, if any, and the NSW, if any at Buyer's Receipt Points or secondary firm Receipt Points into Buyer's firm transportation or at Buyer's city gate. Each Day Seller agrees to nominate and tender for delivery to Buyer, and Buyer agrees to receive from Seller if nominated and tendered at the Receipt Points (or Buyer's city gate in the case of TRP that is being delivered to Buyer's city gate), the BPR, if any, the DSIQ, if any, the WPIQ, if any, and the NSW if any

for such Day. However, Seller's obligation to nominate and tender to Buyer the agreed BPR, DSIQ, WPIQ, and/or NSW on any Day shall be reduced to the extent that Buyer gives notice to Seller that it cannot receive such supplies, or the extent allowed by tariff for NNI and NNW.

3.2 In determining Buyer's BPR, DSIQ, WPIQ, and/or NSW, the Parties agree to adhere to the daily set up and nomination procedures as specified in Exhibit B of the Asset Management and Agency Agreement between Buyer and Seller.

3.3 Unless excused pursuant to Section 3.1 hereof or by Force Majeure, if, on any Day Seller fails to Physically deliver quantities of gas adequate to meet the full supply requirements of Buyer for such Day, then Buyer's remedy shall be to obtain alternate supplies of Gas to cover the quantity of Gas not delivered by Seller (such alternate supplies obtained by Buyer are referred to as "Deficiency Gas").

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]. If Buyer is unable to obtain Deficiency Gas, then Buyer shall be entitled to pursue against Seller all available remedies for breach of this Agreement. If Seller fails to meet the Physical inventory level requirements pursuant to Section 2(d) of the Asset Management and Agency Agreement and such failure is not otherwise excused, then the remedies set forth in this subsection shall be available to Buyer, if in Buyer's sole judgment, obtaining Deficiency Gas is necessary to ensure that the BSRR will be achieved or that winter inventory levels are at satisfactory levels.

IV. Determination of Summer Period BSRR

4.1 For each Summer Period during the term of this Agreement, Buyer will Logically purchase and Seller will Logically deliver a quantity of Gas designated the Summer Period BSRR calculated using the following equation

$$\text{Summer Period BSRR} = \text{BTIL} - \text{AIL} + \text{F}$$

Where

Summer Period BSRR means the BSRR to be injected during the Summer Period,

BTIL means Buyer's Target Inventory Level for each storage service as such targets are determined by VNG prior to the beginning of the Summer Period and communicated to Seller in writing pursuant to the terms of the Asset Management and Agency Agreement,

AIL means Buyer's estimated inventory level in the applicable storage services on April 1 of each Summer Period at the time Buyer provides Seller with the required BSRR quantities; and

F means Fuel(s) retained by Buyer's Transporter and/or Storage Operator from the Receipt Point(s) into the applicable cavern.

V. Price

5.1 The price per MMBtu for any quantity included in this Agreement shall be calculated as follows

(a) For Buyer's MPR,

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

(b) For Buyer's DPR,

[REDACTED]
[REDACTED]
[REDACTED]

5.2 The price for Buyer's BSRR supply for each of Buyer's storage services shall be [REDACTED] at Buyer's Receipt Points on the applicable pipe of receipt based upon injecting the BSRR into storage as directed by the Buyer. For clarification, Buyer is not required to ratably purchase BSRR supply from Seller.

5.3 Storage injections due to daily supply /demand imbalances will be billed [REDACTED], if such nomination is provided from Seller to Buyer by 9:00 a.m. ECT on the prior business day. Each storage contract will be dispatched separately for storage injection and withdrawal. Contracts with the same rates and fuel requirements may be dispatched in aggregate.

5.4 [REDACTED]
[REDACTED]

5.5 The price for Buyer's WPIQ at the Receipt Point(s) to Buyer's transport, if any shall be

VI. Transportation and Penalties

6.1 Seller shall be responsible for all transportation and gathering upstream of Buyer's Transporter necessary for Seller to deliver Gas to Buyer's Receipt Point(s). Seller shall also be responsible for all transportation and gathering necessary for Seller to deliver TRP

6.2 The rules, guidelines, and policies of the Transporter shall define and set forth the manner in which the Gas sold under this Agreement is measured and transported. Buyer and Seller recognize that the receipt and delivery, of Gas purchased and sold under this Agreement shall be subject to the operational procedures of Transporter as well as the terms of Transporter's transportation service agreement(s) with Buyer.

6.3 In the event the Transporter, or any other pipeline upstream or downstream of the Buyer's Receipt Points, in accordance with the General Terms and Conditions of its then effective FERC Gas Tariff, or equivalent state-approved tariff, imposes one or more of the following penalties, scheduling fees, cash-out costs or similar charges for imbalances (collectively "imbalance charges"), Buyer and Seller shall be obligated to use their best efforts to avoid imposition of such imbalance charges. If during any month Buyer or Seller receives an invoice from a transporting pipeline which is downstream of the Buyer's Receipt Points that includes an imbalance charge, both Parties shall be obligated to use their best efforts to determine the validity, as well as the cause, of such imbalances charge. If the Parties determine that the imbalance charge was imposed as a result of Buyer's actions which shall include, but not be limited to, Buyer's failure to accept into a transporting pipeline a daily quantity of Gas equal to the nominated quantity not to exceed the MDQ, then Buyer shall pay for such imbalance charge. If the

Parties determine that the imbalance charge was imposed as a result of Seller's actions (which shall include, but not be limited to, Seller's failure to deliver to a transporting pipeline a daily quantity of Gas equal to the MDQ) then Seller shall pay such imbalance charge

6.4 Buyer and Seller recognize that the Transporter or pipeline upstream or downstream may be authorized to issue Operational Flow Orders ("OFO"), or the equivalent, however described in the Transporter's FERC Gas Tariff, or any successor provision. Buyer and Seller also recognize that the Transporter may issue an OFO that obligates the Buyer or the Seller to take action that may be contrary to the terms of this Agreement, including, without limitation, the delivery and taking of gas in violation of nomination procedures or in quantities contrary to prior nominations made by Seller on Buyer's behalf. In such event, Buyer and Seller agree that compliance with any duly authorized OFO will not constitute a breach of this Agreement, provided that (i) the Party receiving an OFO notify the other Party as soon as possible, and (ii) the Parties use their best efforts to minimize the operational and economic consequences of compliance with the OFO by all means at their disposal. This Section will not apply to the extent an OFO is issued to Buyer or Seller as a result of Buyer's or Seller's actions under any relevant provision of Transporter's FERC Gas Tariff. In the event that Seller concludes that an OFO was improperly or unlawfully issued by the Transporter with the result that Buyer suffers adverse consequences under this Agreement, and in instances where Seller decides not to pursue any rights or remedies it may have against the Transporter associated with the issuance of the OFO, Seller will, to the extent permitted by law or regulation, assign any such rights and remedies to Buyer to the extent required to permit Buyer to take legal or regulatory action against the Transporter.

VII. Payment

7.1 (a) On or before the tenth (10th) day of each Month, Seller shall render to Buyer a statement and invoice setting forth the charges for gas delivered to Buyer which separately identifies any and all quantities attributable to Buyer's DPR, MPR, DSIQ, WPIQ, and TRP during the immediately preceding Month. Buyer shall pay the invoiced amounts on or before the twenty-fifth (25th) day of such month. If presentation of a statement by either Party is delayed after the tenth day of a Month, then the time for payment shall be extended a corresponding period of time, unless the other Party is responsible for such delay.

Any amounts that Seller may owe Buyer under this Agreement, shall be invoiced and paid in accordance with the procedure established in this Section.

7.2 Invoices shall be sent to Buyer at.

Virginia Natural Gas, Inc.
C/o AGL Services Company
Attn: Accounting Department
P.O. Box 4569
Location 1180
Atlanta, GA 30302-4569
Phone: (404) 584-4508
Telecopy (404) 584-4233

Invoices shall be sent to Seller at.

Sequent Energy Management, L.P.
Attn: Accounts Receivable
1200 Smith Street, Suite 900
Houston, TX 77002
Phone (832) 397-1700
Telecopy (832) 397-3711

7.3 If Buyer presents to Seller reasonable evidence supporting Buyer's good faith belief that the amount of the invoice is incorrect, Buyer shall pay the undisputed amount. If Seller can demonstrate, to Buyer's reasonable satisfaction, that Buyer's position is incorrect, Buyer shall immediately pay any remaining amount owed. Late payments and all amounts withheld by Buyer and subsequently

acknowledged or determined to be owed shall bear interest running from the original due date until paid at the lower of the Prime Rate of interest established by the Chase Manhattan Bank plus two percent (2%) or the highest rate acceptable by law. Should Buyer fail to pay undisputed amounts when due, and such failure continues for a period of thirty (30) days or more, Seller shall be entitled to suspend deliveries of Gas to Buyer upon the furnishing of written notice of suspension to Buyer. Seller shall resume deliveries of Gas to Buyer no later than forty-eight (48) hours following Buyer's payment of all undisputed amounts then due.

7.4 If either Party discovers that the amount billed in any statement or payment rendered under this Agreement is incorrect, such inaccuracy shall be adjusted within thirty (30) days of its discovery, together with interest at the rate provided for in Section 7.3. No adjustments shall be made for any inaccuracy not claimed within twenty-four (24) months of the date of the original statement. A Party's rights under this Section shall survive termination of this Agreement.

7.5 The Parties shall each preserve all test data, meter records, charts and other similar records pertaining to Gas sold and delivered under this Agreement for a period of at least two (2) years following this Agreement. Upon at least twenty-four (24) hours advance notice, each Party shall have the right during normal business hours to examine the books and records of the other Party to the extent necessary to verify the accuracy of any statement, charge, computation, or demand made under or pursuant to this Agreement. A Party's rights under this Section shall survive for two years after termination of this Agreement.

VIII. Adequate Assurance

8.1 When reasonable grounds for insecurity of performance arise, Buyer may demand adequate assurance of performance. Adequate assurance shall mean sufficient security in the form and

for the term reasonably specified by the Buyer, including, but not limited to, a standby irrevocable letter of credit, a prepayment, a security interest in an asset acceptable to Buyer or performance bond or guarantee by creditworthy entity. In the event Seller shall (i) make an assignment or any general arrangement for the benefit of creditors, (ii) default in any performance obligation to the Buyer, (iii) file a petition or otherwise commence, authorize, or acquiesce in the commencement of proceeding or cause under any bankruptcy or similar law for the protection of creditors or have such petition filed or proceeding commenced against it, (iv) otherwise become bankrupt or insolvent (however evidenced), or (v) be unable to pay its debts as they fall due, then Buyer shall have the right to either withhold and/or suspend payment, and/or terminate this Agreement without prior notice, in addition to any and all other remedies available hereunder.

8.2 When reasonable grounds for insecurity of performance arise, Seller may demand adequate assurance of performance. Adequate assurance shall mean sufficient security in the form and for the term reasonably specified by the Seller, including, but not limited to, a standby irrevocable letter of credit, a prepayment, a security interest in an asset acceptable to Seller or performance bond or guarantee by creditworthy entity. In the event Buyer shall (i) make an assignment or any general arrangement for the benefit of creditors, (ii) default in any performance obligation to the Seller, (iii) file a petition or otherwise commence, authorize, or acquiesce in the commencement of proceeding or cause under any bankruptcy or similar law for the protection of creditors or have such petition filed or proceeding commenced against it; (iv) otherwise become bankrupt or insolvent (however evidenced); or (v) be unable to pay its debts as they fall due, then Seller shall have the right to either withhold and/or suspend payment, and/or terminate this Agreement without prior notice, in addition to any and all other remedies available hereunder.

IX. Responsibility

9.1 Title to Gas delivered under this Agreement (other than TRP) shall pass from Seller to Buyer at the Receipt Point(s) into Buyer's transportation. Title to TRP delivered under this Agreement shall pass from Seller to Buyer at Buyer's city gate. As between the Parties, Seller shall be deemed to be in control and possession of the Gas delivered to the Receipt Point(s) (or Buyer's city gate in the case of TRP) and shall be responsible for any damage or injury caused by the Gas until it has been delivered to or for the account of Buyer at the Receipt Points (or Buyer's city gate in the case of TRP), after which delivery as it applies to this Gas Purchase and Sale Agreement Buyer shall be deemed to be in custody of the Gas and responsible for any damage or injury caused by the Gas.

9.2 Except as provided in Section VI above, all charges, expenses, fees, taxes, damages, injuries, and other costs incurred in or attributable to the purchase and transfer, transportation, handling, and sale of the Gas delivered in accordance with this Agreement prior to, and including, delivery to Buyer at the Receipt Points (or Buyer's city gate in the case of TRP) shall be the responsibility of Seller. As between the Parties, Seller shall indemnify, defend, and hold Buyer harmless from all such charges, expenses, fees, taxes, damages, injuries, and other costs.

9.3 Except as provided in Section VI above, all charges, expenses, fees, taxes (including sales, or transfer taxes and any other taxes levied on or in connection with the transactions under this Agreement by the state, or other government subdivision, in which the Gas is consumed or otherwise used regardless of the point at which the tax is assessed), damages, injuries, and other costs incurred in or attributable to the downstream purchase and transfer, transportation, and handling of the Gas delivered in accordance with this Agreement, occurring after delivery of Gas to Buyer at the Receipt Points (or Buyer's city gate in the case of TRP) shall be the responsibility of Buyer. As between the Parties, Buyer shall indemnify, defend, and hold harmless Seller from all such charges, expenses, fees, taxes, damages, injuries, and other costs. In the event Seller is required by law to collect any such taxes

and Buyer claims an exemption from the taxes, Buyer shall, upon Seller's request, furnish Seller with a copy of Buyer's exemption certificate

9.4 Except as provided in Article XV below, Buyer warrants that it has all necessary regulatory approvals and authorizations for its purchase of Gas from Seller under this Agreement

9.5 Except as provided in Article XV below, Seller warrants that it has all necessary regulatory approvals and authorizations for its sale of Gas to Buyer under this Agreement

X. Term

10.1 The term of this Agreement shall commence on the effective date of the Agreement and shall be coterminous with the Asset Management and Agency Agreement of same date. Notwithstanding the foregoing, the terms and conditions of this Agreement shall survive for the term of any individual transactions under this Agreement until such transactions terminate or expire according to their terms

XI. Quality and Measurement

11.1 Gas delivered by Seller to the Receipt Point(s) shall meet the quality and pressure specifications set forth in the Transporter's FERC gas tariff. If Gas delivered by Seller to the Receipt Points is rejected by the Transporter for failure to meet its quality specifications, Buyer shall be relieved of the obligation to receive such Gas. TRP delivered by Seller to Buyer's city gate shall meet the quality and pressure specifications set forth in the Transporter's FERC gas tariff. To the extent that the TRP does not meet the quality specifications, Buyer may reject the Gas and shall be relieved of the obligation to receive such Gas. Such event would not relieve Seller of its obligation to deliver Buyer's BPR, DSIQ or WPIQ, if Buyer has notified Seller on a timely basis and Seller is provided an opportunity to cure

11.2 Buyer and Seller agree that the volume and heating value of Gas sold and delivered hereunder (other than TRP) will be measured at or near the Receipt Points by the Transporter, using equipment owned or controlled by, and measuring procedures employed by the Transporter. Buyer and Seller agree that the volume and heating value of TRP gas shall be measured at or near the Delivery Point of the Buyer using the equipment owned or controlled by, and measuring procedures employed by the Transporter. The measurements made by the Transporter shall be accepted by Buyer and Seller, provided, however, the measuring equipment and procedures used must conform to the Transporter's filed tariffs and to generally recognized industry standards.

XII. Force Majeure

12.1 If either Party is rendered unable, wholly or in part, by Force Majeure to perform its obligations under this Agreement, other than the obligation to make payments then, or subsequently, due attributable to Gas delivered prior to the event of Force Majeure, it is mutually agreed that performance of the respective obligations of the Parties, so far as they are affected by such Force Majeure, shall be suspended without liability from the inception of any such inability until it is corrected but for no longer period. No Party shall, however, be required against its will to settle any labor disputes.

12.2 The term "Force Majeure" means an event that (i) was not within the control of the Party claiming its occurrence; and (ii) could not have been prevented or avoided by such Party through the exercise of due diligence. Events of Force Majeure include, without limitation by enumeration, acts of God, earthquakes, epidemics, fires, floods, landslides, lightning, hurricanes, numbered or named storms by the U.S. National Weather Service, washouts and other similar severe natural calamities, acts of public enemy, wars, blockades, insurrections, riots, civil disturbances, explosions, well freezing affecting a broad geographic region, breakage or freezing of lines of pipe used to enable Seller to deliver or Buyer to receive or subsequently transport or use Gas under this Agreement, imposition by a regulatory agency,

court or other governmental authority having jurisdiction of binding laws, conditions, limitations orders, rules or regulations that prevent or prohibit either Party from performing, provided such governmental action has been resisted in good faith by all reasonable legal means, or any other cause of a similar type

12.3 Neither Party shall be entitled to the benefit of the provisions of Force Majeure to the extent performance is affected by any or all of the following circumstances (i) the curtailment of interruptible or secondary firm transportation, or (ii) the Party claiming excuse failed to remedy the condition and to resume the performance of such covenants or obligations with reasonable dispatch, or (iii) economic hardship other than if such a loss is a recognized event of Force Majeure under Buyers Storage Agreements with its underlying Pipeline or storage provider

12.4 The Party whose performance is prevented by Force Majeure must provide prompt notice to the other Party. However, due to the paramount supply obligations of Buyer to its customers, any declaration of Force Majeure by Seller must be first approved and accepted in writing by Buyer in its sole discretion, before any such declaration of Force Majeure by Seller shall take effect between the Buyer and Seller. Provided, however, such approval and acceptance shall not be unreasonably withheld. In addition, once Buyer has received a timely written notification from Seller, if Buyer does not approve and accept or reject such declaration of Force Majeure within two business days, Buyer shall be deemed to have approved and accepted such declaration. Absent Buyer's written approval and acceptance of a declaration of Force Majeure by Asset Manager, or waiver by Buyer as set forth herein, such Force Majeure declaration shall have no legal effect between Buyer and Seller. Initial notice may be given orally, however, written notification with reasonably full particulars of the event or occurrence is required as soon as reasonably possible. Upon providing written notification of Force Majeure to the other Party, the affected Party will be relieved of its obligation to make or accept delivery of Gas as

applicable to the extent and for the duration of Force Majeure, and neither Party shall be deemed to have failed in such obligations to the other during such occurrence or event

12.5 Prior to Seller issuing a declaration of Gas supply Force Majeure, Seller must first cease all interruptible Gas supply obligations. If such action does not remedy the need for Seller to declare a Gas supply Force Majeure, Seller shall allocate all available Gas supplies to its firm customer supply obligations on a pro-rata basis

XIII. Seller's Warranties and Gas Supply Obligations

13.1 Seller warrants title or the right to deliver title to all Gas sold by it to Buyer and that such Gas is free from all liens and adverse claims. Seller agrees to indemnify and hold Buyer harmless from, and with respect to, all suits, actions, debts, accounts, damages, costs, losses and expenses (including but not limited to reasonable attorneys' fees) arising from or out of any adverse claims of any and all persons related to title to such Gas.

13.2 Seller agrees to take all reasonable efforts to assure that the natural gas supply contracts entered into by Seller to satisfy Buyer's firm requirements are administered in a manner that will assure the satisfaction of Seller's obligations pursuant to the terms of this Agreement

XIV. Governmental Authorizations

14.1 This Agreement is subject to all valid laws, orders, rules and/or regulations of any and all duly constituted governmental authorities, Federal, State or local, to the extent such laws, regulations, and orders are applicable and effective from time to time, provided, however, that if any such governmental authority shall take any action or assert any jurisdiction whereby the sale, delivery, receipt, or use of Gas as contemplated hereunder will be subjected to terms, conditions, or restraints that in the sole judgment of the Party affected are unduly burdensome or unacceptable, then such Party, within thirty (30) days after learning of such action or assertion of jurisdiction, may cancel and terminate this

Agreement effective one day prior to the effective date of such governmental action. In the event of such termination or termination of this Agreement for any other reason permitted by the Asset Management and Agency Agreement between Virginia Natural Gas, Inc. and Sequent Energy Management, L.P., the Parties agree that all Gas received by Buyer hereunder prior to cessation of deliveries shall be paid for by Buyer at the rate in effect immediately prior to the termination of this Agreement and that any existing fixed price transactions will be liquidated at current market values and appropriate adjustments will be made. Provided further, to the extent Seller has not delivered the full volume of Gas paid for by Buyer, Seller shall be obligated to deliver such Gas to Buyer within thirty (30) days of such termination. Further provided, upon termination of this Agreement, Seller must liquidate all other transactions and/or positions involving Buyer's Interstate and Intrastate Capacity Assets within seventy-five (75) days, unless otherwise agreed to by the Parties.

14.2 Upon execution of this Agreement, each of the Parties agrees to seek such government certificates, permits, licenses and authorizations which, in its sole discretion, it deems necessary to perform its obligations under this Agreement.

14.3 Upon execution of this Agreement, and from time to time throughout its term, each of the Parties shall make all filings required by any regulatory bodies having jurisdiction over the activities covered by this Agreement and upon request of the other Party shall promptly provide copies of such to the other Party.

14.4 Neither Party will knowingly enter into agreements nor undertake any activities or filings that would interfere with or frustrate the other Party's efforts to obtain the necessary regulatory approvals to fulfill its obligations under this Agreement.

XV. Assignment

15.1 Either Party may pledge, mortgage or assign its rights as security for indebtedness. This Agreement shall be binding upon and inure to the benefit of the Parties, their successors and assigns. Neither Party shall assign this Agreement without the prior written consent of the other Party, which consent shall not be unreasonably withheld, and prior approval by the VSCC; provided, however, that either Party may assign this Agreement to an affiliate or an entity that succeeds as a result of merger or reorganization without the consent of the other Party subject to prior VSCC approval so long as such wholly-owned affiliate or other entity agrees in writing to be bound by the terms of this Agreement following such assignment.

XVI. Curtailment

16.1 In the event of Force Majeure that causes Seller to curtail its deliveries under this Agreement, Seller will perform its obligations under this Agreement prior to supplying any interruptible sales undertaken by Seller in accordance with the Asset Management and Agency Agreement between Seller and Buyer. Seller shall be obligated to curtail deliveries to third party interruptible sales customers prior to curtailing any deliveries to Buyer, in the event, and only to the extent, that such curtailment increases the supply of Gas available for delivery to the Receipt Points (or Buyer's city gate in the case of TRP). Notwithstanding the foregoing, nothing in this Section shall be construed to require Seller to curtail deliveries to sales customers on a pipeline other than Transporter and to divert the curtailed quantity of Gas to Buyer if such diversion of Gas would result in a breach or violation of a firm sales agreement between Seller and any other firm sales customer on a pipeline other than Transporter.

XVII. Confidentiality

17.1 The terms of this Agreement, including but not limited to, the price paid for Gas, the quantities of Gas purchased, and all other material terms of this Agreement shall be kept confidential by

the Parties except to the extent that any information must be disclosed for the purpose of effectuating transportation of the Gas or as required by law

XVIII. Miscellaneous

18.1 No waiver by either Party of any one or more defaults by the other in the performance of any provisions of this Agreement shall operate or be construed as a waiver of any other default or defaults, whether of a like or of a different character

18.2 This Agreement shall be governed and construed in accordance with the laws of the state of Virginia.

18.3 If any provision of this Agreement is determined to be invalid, illegal or otherwise unenforceable for any reason by a court of competent jurisdiction, the remaining terms and conditions of this Agreement shall remain in full force and effect to the fullest extent permitted by law. In such an event, the Parties agree to make a good faith effort to replace the affected provisions

18.4 This Agreement is not a commitment or dedication by Seller to sell or deliver Gas from specific fields, wells or other identifiable source of supply

XIX. Other

19.1 Neither Party shall be liable for punitive, exemplary, consequential or incidental damages arising from any breach or default under this agreement or from any act or omission under or in connection with this agreement except as otherwise set forth herein or in the Asset Management Agreement

19.2 In the event issues or questions arise between the Parties or among individuals having responsibility (e.g. personnel of either Party from gas operations, accounting, regulatory or commercial

business functions) for any matter that affects the implementation of a provision of this Agreement, the Parties agree that the following steps shall be followed for resolution of such issues (1) the personnel directly involved in the day to day undertakings giving rise to the issues shall meet and, based upon the resource and reference materials available to the Parties, will determine if a mutually agreeable resolution of the issue(s) is possible. If a resolution of the issue(s) is reached, a memorandum will be written to AGL Services Company, office of the General Counsel, which identifies the issue(s) and the resolution, or (2) if a resolution of the issue is not reached within five (5) days of the date the Parties meet to resolve the issue, a memorandum to AGL Services Company, office of the General Counsel shall be submitted which outlines the matter(s) that require clarification or may be in dispute. Based upon the information contained in the memorandum and any other data or facts gathered subsequent to the request for resolution, the General Counsel or his representative for AGL Services Company shall resolve the issue(s) involved. Resolution of any issue(s) shall be confirmed in writing and communicated to the Parties. All communications regarding the resolution of any issues shall be retained by the AGL Services Company Legal Department as privileged information.

19.3 Buyer reserves the right to direct Seller to purchase gas for a longer term than one month and/or to allow Buyer discretion to implement any financial hedging program accepted or approved by the VSCC. Buyer will separately manage any financial hedging that may be associated with such hedging program.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the day and year first written above, by their duly authorized Representatives

SELLER
SEQUENT ENERGY
MANAGEMENT, L P

BUYER
VIRGINIA NATURAL GAS, INC

By _____
Title _____

By _____
Title _____

EXHIBIT D

The Net Margin will be allocated as follows

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

In this regard, the Parties agree that the computation of Net Margin shall be determined as follows:

Net Margin = (Revenue - Cost) + (Revenue from Most Cost Effective Transportation Path - Costs of Actual Transportation Path) + Physical Storage Sales Margin + Recognized Financials + Unrealized LCM inventory adjustments

Revenue = gross revenue attributable to use of VNG Assets for asset optimization activity calculated as follows: for off-system sales (OSS) at pools, Revenue will be derived assuming flat market index prices. To the extent market index prices are unavailable at Receipt Points, the Parties shall mutually agree upon a price. For OSS at VNG's city gates, or any location where market index prices are not available, Revenue will be calculated based on actual revenue. Revenue created by capacity release will be that amount credited on pipeline supplier invoices.

Cost = injection, withdrawal, and transport fuel charges and any variable costs including surcharges, as well as gas costs. Gas costs shall be determined by using the appropriate IFERC or GDA flat index, or actual fixed price if a fixed price purchase is made to serve a fixed price sale. Costs shall also include any costs borne by Asset Manager to unwind any transaction in order to meet VNG's gas supply needs.

Revenue from Most Cost Effective Transportation Path = Revenue received from Asset Manager's sales to Buyer

Costs of Actual Transportation Path = Costs incurred by Asset Manager, using market flat index prices and Asset manager's actual dispatch, to serve Buyer's nominations

Physical Storage Sales Margin = Revenue from Physical Storage Sales – Costs of Physical Storage Sales (Value created by storage transactions will include both physical and financial gains and losses. In no event shall the total value of a transaction, once all legs are complete, be less than zero; provided however that Asset Manager may roll storage transactions that individually may result in negative margin for such storage roll)

Recognized financials = financial transactions expiring during or prior to current period

Unrealized lower of
Cost or market (LCM)

Adjustment to inventory = adjustment recorded to inventory to reflect cost being higher than market

APPENDIX C

VNG AMA WORK PLAN
9/29/05

1. Organize the VNG management/operational oversight group.
 - a) Establish a VNG managerial position reporting to VNG's president that is responsible for asset management and gas procurement oversight.
 - b) Engage an external auditor/consultant to monitor contract compliance.
 - c) Arrange the analytical support for this group.
2. Review all internal and external SEM audit reports for all AGLR utilities. Identify all issues raised in these reports. Determine whether any issues raised are pertinent to the VNG book and detrimentally affect the VNG book prospectively. Document and resolve these issues.
3. Establish goals for asset manager performance and a quarterly review process regarding status of goal attainment. Goals should include the areas of ratepayer gas costs, utilization of assets, and value creation.
4. Establish logical dispatch procedures for customer requirements and storage injection. Develop/acquire or contract for any models necessary to determine optimal gas dispatch and record gas costs. Determine all possible gas paths and the corresponding volumetric unit costs and the fuel retainage percentage associated with each path. Set up process to update and validate rates and retainage. Set up process to validate through Gas Accounting that SEM billing matches the logical dispatch cost for actual sendout as determined by VNG. Monitor any difference in cost between logical and actual dispatch.
5. Establish guidelines for SEM borrowing with respect to replacement activity for VNG gas in storage and that address the issues of security of supply and carrying costs.
6. Work with SEM to revise the quarterly VSCC report to eliminate redundancy, provide more clarity, and provide information needed to track the performance of the Asset Manager under the new agreement.

7. Establish a monthly update meeting between VNG and SEM to address value creation, customer gas costs, physical storage inventory levels, and industry supply and pricing trends. In addition, any emerging issues should be discussed and follow-up plans developed.
8. Review in detail the quarterly report with SEM prior to filing with the VSCC for accuracy and completeness. VNG will validate the data submitted through this process as well as the monthly sampling process described in 9.
9. Validate a sample of transactions monthly to assure contract compliance and data integrity in the value calculation. Included in the revenue transactions to be tested will be prices and volumes for citygate third party sales, prices and volumes for other third party sales, and capacity release credits. Included in the cost transactions to be tested are actual gas costs for fixed price third-party citygate sales, pooling point index prices and volumes for other third-party sales.
10. Validate a sample of transactions monthly to assure contract compliance, data integrity, and appropriate gas accounting in transactions related to procurement of gas supply for VNG system supply. Included in the transactions to be tested are logical dispatch costs versus billed costs, VNG rate and retainage inputs to the pricing model, and SEM actual costs based on indices versus flat indices at VNG receipt points.
11. Schedule annual audit of SEM by the AGLSC Internal Audit Division to assure contract compliance and data integrity. Review all audits of other AGLR asset management audits to determine the relevance of any identified audit issues in those reports to the VNG asset management process. Modify processes to correct any issues prospectively and identify any ratepayer cost or value impact applicable to current contract term. Make appropriate adjustments to recognize this impact.